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A-264

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TO : DEPARTMENT OF STATE

This document consists of 5 pages.

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INFO: ADEN, AMMAN, ANKARA, BAGHDAD, DHAHRAN, BEIRUT,
 BONN FOR CINCUSAFE, CAIRO DAMASCUS, FRANKFURT FOR LINDSEY
 AIR STATION, ATTN: DSC INTELLIGENCE IDCA; HEADQUARTERS,
 USAREUR HEIDELBERG, KARACHI, KHARTOUM, KUWAIT,
 LONDON FOR CINCNELM (continued below)

FROM : Amembassy JIDDA

DATE: March 16, 1965

SUBJECT: Joint Weeka No. 11 (week ending March 15, 1965)

REF :

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MILITARY Negative

PSYCHOLOGICAL

1. Bonn's Recognition of Israel

INFO: (cont'd) RABAT, TAIZ, TEHERAN, POLAD CINCSTRIKE/CINCMEAFSA,
 CHUSMTM; COMIDEASTFOR, USMTM AIR FORCE SECTION,
 USMTM ARMY SECTION, TUNIS

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POLITICAL/ECONOMIC
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Comment: The Embassy believes that Faysal still desires to find a peaceful solution to the Yemen problem on the basis of his September agreement with Nasir. He is, however, concerned by reports that the Egyptians are preparing for a new offensive in northern Yemen and are passing troops at Maydi just below the Yemen-Saudi border south of Jizan.

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(A)(J) [REDACTED]
Saqqaf left for Cairo March 14 to attend the Arab Foreign Minister meeting.
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[REDACTED]
5. Progress toward Investment Guarantee Agreement. Acting Commerce Minister Zaki YAMANI told the Embassy March 8 that he would recommend to King Faysal favorable action on the Embassy's proposed Investment Guarantee Agreement. Yamani doubted that final action could be taken, even if his recommendation were accepted, before the end of April. LIMITED OFFICIAL USE

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6. SAG to Propose Tax Convention. Pointing out that the Saudi Foreign Investment Code, with its tax holiday for developmental investments, offers little incentive to American investors because of the Internal Revenue Code's provision for credit for foreign taxes paid, Acting Commerce Minister Zaki YAMANI has informed the Embassy informally that the Saudi Government will "shortly" propose to the United States a tax convention which would increase the tax advantages to American investors in the Kingdom. He indicated that many more European than American firms had so far elected to benefit by terms of the Foreign Investment Code, which took effect in February 1964. LIMITED OFFICIAL USE
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7. Arab Petroleum Conference. Petroleum Minister Zaki YAMANI left March 15 to attend the first four days of the Arab Petroleum Conference in Cairo starting March 16. He expects the United States and Saudi Arabia to come under heavy fire during the conference, in line with pronouncements by Egyptian editor Muhammad Hassanayn BEYKAL and others to the effect that Arab oil-producing states should use oil as a weapon against the United States to reinforce the Arab stance in such matters as the German/Israel arms deal. Yamani is not especially worried at the prospect, and is anxious to attend the conference in order to prevent the UAR from pre-empting the field. END CONFIDENTIAL

The Chief of the Saudi Delegation to the Conference is Fahd KHAYAL, Saudi OPEC governor.

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8. DC-9 Sale Imminent. Representatives of Douglas Aircraft Corporation are expected to sign a contract in Jidda March 15 for the sale of three DC-9 aircraft to Saudi Airlines for about \$10.3 million. The contract will include an option to purchase two more. Deliveries are scheduled for the last three months of 1966. LIMITED OFFICIAL USE

9. Pharaon Temporary Head of Economic Planning Body. An American adviser attached to the Central Planning Commission, successor to the Supreme Planning Board (SPB) has informed us that Rashad PHARAON, Saudi Ambassador in Paris and King FAYSAL's special emissary in the dormant Yemen negotiations, has been assigned temporary functions in connection with organizing the new Commission. His principal duties thus far have been to find positions within the ministries for employees of the defunct SPB who are not to be assigned to the Commission. A Minister for Planning is still expected to be named as head of the Commission in due course. However, it is rumored that Pharaon will be named Chief of the Royal Diwan from which position he could serve on ad hoc assignments such as the planning organization and yet be free to handle special missions such as the Yemen negotiations. END LIMITED OFFICIAL USE
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PSYCHOLOGICAL

1. Bonn's Recognition of Israel. Bonn's announcement that it would seek to establish diplomatic relations with Israel met with an immediate and sharp reaction from Saudi news media. In an unprecedented step, Radio Mecca's March 7 newscast featured the report of Bonn's decision ahead of the King's activities--an indication of the importance which the Saudis ascribed to this item. Press coverage of Saudi and Arab World reactions has been extensive. Throughout the theme has been one of jubilation over the expected demonstration of Arab unity coupled with unusually harsh criticisms of Bonn. Al-Madina's "Rasid," in a series of editorials on the subject, bitterly attacked Chancellor ERHARD, "the fat boy of Bonn", for his "idiotic" decision. West Germany is derided as a weak and pusillanimous state which lets Little Israel walk all over it. Several writers have singled out the United States as being behind Bonn's action and have seen this as part of an "imperialist plot" directed against the Arabs. While several editorials urged that the Germans be "punished" for their affront to the Arabs, most writers (perhaps at Government insistence) have been somewhat vague about the nature of the penalty which the Arabs should impose. So far no Saudi writer has dared to suggest that the Arabs as a whole and Saudi Arabia in particular should recognize East Germany in retaliation. UNCLASSIFIED

FOR THE AMBASSADOR:

Brooks Wrampelmeier
Second Secretary of Embassy

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